

**Task Force #2
HJR 60 (2002)**

Sales and Use Tax Issue

2. Extension of sales tax to services/commerce.

3. Broaden the sales and use tax base to include personal services, amusements, and repair services.

The sales tax in Virginia is imposed on the purchase of tangible personal property unless such property is specifically exempt. However, the tax is not imposed on the purchase of **services** unless such taxation is specifically set forth in the law. If a service is intertwined in tangible personal property that is purchased, then the "true object" of the purchaser is determinative of the tax consequences. That is, if the true object is the tangible personal property, then the entire purchase price (for the service and the good) is taxed. If the "true object" is the service, then no tax is imposed on any part of the purchase price.

The impact of not taxing services has grown, and continues to grow since the inception of the tax in 1966, as the economy continues to shift from manufacturing dominated to service dominated. In 1966, 60% of the total amount spent on consumption was spent on goods, and 40% was spent on services. These components have steadily moved in opposite directions, so that today services constitute 60% of the total amount of consumption.

The Morris Commission recommended that the sales and use tax be imposed on personal services, amusements, and repair services, and estimate the additional revenue to be generated as a result at \$146 million per year.

Attached are: (i) estimates by the Tax Department of the revenue lost by not taxing various services as of 1999; (ii) two charts comparing the level of taxation of services among the states; (iii) a document prepared by the Tax Department entitled "Sales Taxation of Services;" and (iv) a document by John L. Knapp, Ph.D., that was relied on by the Morris Commission in making its recommendation to impose the sales tax on personal services, amusements, and repair services.